NATIONAL TEA CO.

ANNUAL REPORT TO STOCKHOLDERS 1947

OFFICERS AND DIRECTORS

OF NATIONAL TEA CO.

Directors

WILLIAM E. ALBRIGHT

JOHN F. CUNEO

RAYMOND P. FISCHER

JOHN V. FARWELL III

ARTHUR J. HANSEN

HARLEY V. McNAMARA

ROBERT V. RASMUSSEN

WILLIAM E. RUSSELL

ROBERT E. STRAUS

Officers

HARLEY V. McNAMARA
President

ARTHUR J. HANSEN
Vice President

NORBERT L. CHAPLICKI
Vice President

FRANK J. GRUMAN
Vice President

WILLIAM E. RUSSELL
Secretary-Treasurer

CLARENCE E. BEARD
Assistant Treasurer

CHARLES WOODING
Assistant Comptroller

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Transfer Agents

The First National Bank
38 S. Dearborn Street
Chicago, Illinois

The Chase National Bank
11 Broad Street
New York, N. Y.

Registrars

Continental Illinois National
Bank and Trust Co.
231 S. LaSalle Street
Chicago, Illinois

The New York Trust Company
100 Broadway
New York, N. Y.

MANAGEMENT REPORT

for

1947

TO OUR SHAREHOLDERS:

This year's report again reflects improved sales, profits and continued progress in our program to make National Food Stores the outstanding food stores in the middle west. The report of your company and its subsidiaries for the year ending December 31, 1947 is presented herewith:

SALES . . .

Sales for the year amounted to $217,915,297 (establishing a new sales record for the fifth consecutive year), and compare with $157,641,672 for 1946, an increase of 38.23%, reflecting an increase in tonnage as well as dollars.

PROFITS . . .

The results of operation for the year show a profit of $3,597,154, equivalent after preferred dividends to $5.45 per share on 641,150 shares outstanding common stock. This result compares with a profit of $2,931,473 for 1946 and $4.51 per share on 631,400 shares of common stock outstanding. In furtherance of its policy of serving its customers at the lowest possible price, the Company's margin of profit on sales was reduced to 1.65% in 1947 as compared with 1.86% for 1946.

DIVIDENDS . . .

During the year 1947, dividends of $1.25 per share were paid to common stockholders. An extra dividend of 37½c per share was declared in December, 1947 and paid January 2, 1948. In addition to the common dividends, preferred dividends in the amount of $102,722 were paid or declared.

MERCHANDISE INVENTORY . . .

Our inventories have increased from $15,948,588 on December 31, 1946 to $17,556,572 on December 31, 1947. This increase is caused by the additional stores purchased during the year.

RESULTS AT A GLANCE . . .

Results of Operations for the Calendar Years

	1943	1944	1945	1946	1947
Sales	$91,795,090	$99,870,475	$106,868,995	$157,641,672	$217,915,297
Net Profit before Federal Taxes	581,892	1,766,663	1,838,058	4,761,473	5,772,154
Federal Taxes	230,000	700,000	925,000	1,830,000	2,175,000
Net Profit after Federal Taxes	351,892	1,066,663	913,058	2,931,473	3,597,154
Earned Per Share Common	.44	1.59	1.33	4.51	5.45
Percent of Sales	.38	1.07	.85	1.86	1.65
Dividends paid per share on Common	—	.25	.85	.85	1.25
Common Shareholders Investment per Share	17.95	19.28	19.65	23.03	26.96
Ratio of Current Assets to Current Liabilities	1.81	2.42	2.79	1.97	2.18

STORES . . .

	1947	1946
Stores with meat markets	556	491
Conventional grocery stores	146	202
Total stores on December 31	702	693

In September of 1947, the Company acquired the merchandise, fixtures and equipment of 48 stores and 2 warehouses at Indianapolis, Indiana from the Standard Grocery Co.-L. A. Jackson, Inc. The results of this operation have proven highly satisfactory to date and give additional facilities for expansion in this area.

REAL ESTATE . .

The policy of selling Company owned store properties was continued during the year, 42 parcels being sold from which a profit of $126,317.94 was realized.

The construction of the Company's new warehouse at Hopkins, Minnesota, for the servicing of our Minneapolis Branch, was completed and was sold and leased back by the Company for a period of 25 years with options for renewal after that date. The old warehouse and bakery at Minneapolis were sold at a profit.

FINANCIAL . . .

On October 15, 1947, the Company sold 40,000 shares of 3.8% Series $50 par value preferred shares for cash, the proceeds being used to provide additional working capital required to finance higher inventories, necessitated by increased volume and also in part to finance the purchase of the Standard Grocery of Indiana stores.

ORGANIZATION . . .

Our organization has been strengthened during the year with the election by your Board of Directors of two additional Vice Presidents. Mr. Frank J. Gruman, Vice President in Charge of Purchases and Mr. Norbert L. Chaplicki, Vice President in Charge of Meat Operations. Both of these men are well qualified for these positions. Mr. Gruman has spent 33 years in the buying end of the food business, 27 years of this total with National Tea. Mr. Chaplicki has spent 29 years in the meat business, practically all of it in chain store operations and the last 3 years with our Company.

LABOR RELATIONS . . .

Your management recognizes with grateful appreciation the important part played by our employees in the year's results — without their loyal, energetic and efficient cooperation, these outstanding results would not have been achieved. We sincerely hope that management can continue to merit this whole-hearted cooperation.

H. V. McNamara

PRESIDENT

Chicago, Illinois
March 4, 1948.

NATIONAL TEA CO.

CONSOLIDATED

DECEMBER 31,

ASSETS	1947	1946
CURRENT ASSETS:		
Cash	$ 5,361,555	$ 3,472,105
Accounts receivable, less reserves of $36,695 and $37,851, respectively	864,817	635,625
Inventories of merchandise and supplies, at lower of cost or market	17,556,572	15,948,588
Total current assets	$23,782,944	$20,056,318
PREPAID RENTS, INSURANCE, ETC	$ 420,001	$ 165,355
MORTGAGE NOTES RECEIVABLE	$ 59,309	$ 84,047
PLANT AND EQUIPMENT, at cost less the remainder ($352,005) of the net write-down of buildings charged to earned surplus in 1935:		

	Gross	Reserves		
Land	$ 1,301,098	$ —	$ 1,301,098	$ 1,859,734
Buildings	2,967,269	1,542,500	1,424,769	2,764,407
Fixtures and equipment	12,087,603	6,006,370	6,081,233	3,153,846
	$16,355,970	$7,548,870		
Leaseholds and improvements in process of amortization			190,409	94,726
			$ 8,997,509	$ 7,872,713
GOODWILL			$ 1	$ 1
			$33,259,764	$28,178,434

AND SUBSIDIARIES

BALANCE SHEET

1947 AND 1946

LIABILITIES	1947	1946
CURRENT LIABILITIES:		
Notes payable to banks	$ —	$ 1,500,000
Serial notes and mortages payable	100,000	65,000
Accounts payable	6,801,391	5,326,131
Federal income taxes	2,195,999	1,840,404
Accrued liabilities	1,797,491	1,430,224
Total current liabilities	$10,894,881	$10,161,759
SERIAL NOTES, due 1949 to 1960, interest rate 1¾% to 3%	$ 1,300,000	$ 1,400,000
RESERVE FOR SELF-INSURANCE	$ 164,263	$ 181,218
CAPITAL STOCK AND SURPLUS:		
Preferred shares, cumulative, par value $50 (sinking fund deposit of $322,201 required on April 1, 1948)—		
4¼% series, authorized and issued 32,300 and 37,800 shares, respectively	$ 1,615,000	$ 1,890,000
3.8% series, authorized and issued, 40,000 shares	2,000,000	—
Common shares, par value $10, authorized 800,000 shares, issued 660,000 shares	6,600,000	6,600,000
Paid-in surplus (increase represents excess of sale price over carrying value of treasury stock purchased by officers in 1947)	1,776,663	1,701,075
Earned surplus ($3,528,155 available for dividends at December 31, 1947)	9,107,104	6,544,903
	$21,098,767	$16,735,978
Less—Approximate cost of common shares held in treasury (18,850 and 28,600 shares, respectively)	198,147	300,521
	$20,900,620	$16,435,457
	$33,259,764	$28,178,434

NATIONAL TEA CO. AND SUBSIDIARIES

Statement of Consolidated Income

FOR THE YEARS ENDED DECEMBER 31, 1947 AND 1946

	1947	1946
SALES AND OTHER INCOME:		
Sales	$217,915,297	$157,641,672
Profit on disposal of fixed assets	353,777	157,795
Total sales and other income	$218,269,074	$157,799,467
COSTS AND EXPENSES:		
Materials and services purchased from others	$181,935,503	$130,216,057
Wages and salaries	23,805,244	17,590,154
Rentals paid for leased properties	1,975,705	1,607,142
Provision for depreciation	753,611	552,412
Interest on indebtedness	54,810	47,370
Social security, State, local, and miscellaneous taxes	3,972,047	3,024,859
Provision for Federal income taxes	2,175,000	1,830,000
Total costs and expenses	$214,671,920	$154,867,994
NET INCOME FOR THE YEAR	$ 3,597,154	$ 2,931,473

Statement of Consolidated Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1947 AND 1946

	1947	1946
BALANCE AT BEGINNING OF YEAR	$ 6,544,903	$ 4,389,513
ADD—Net income	3,597,154	2,931,473
	$ 10,142,057	$ 7,320,986
DEDUCT:		
Dividends paid or declared—		
4¼% preferred stock	$ 75,466	$ 83,043
3.8% preferred stock	27,256	—
Common stock ($1.37½ and $1.10 per share, respectively)	879,148	693,040
Commissions and expenses in connection with sale of 3.8% preferred stock	53,083	—
	$ 1,034,953	$ 776,083
BALANCE AT END OF YEAR	$ 9,107,104	$ 6,544,903

AUDITORS' CERTIFICATE

ARTHUR ANDERSEN & CO.

120 SOUTH LASALLE STREET
CHICAGO 3

TO THE BOARD OF DIRECTORS,
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) AND SUBSIDIARIES as of December 31, 1947, and the statements of income and earned surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We had previously made a similar examination for the year ended December 31, 1946.

In our opinion, the accompanying consolidated balance sheet and related statements of income and earned surplus present fairly the position of National Tea Co. and subsidiaries at December 31, 1947 and the results of their operations for the year ended that date, and are in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 13, 1948.

Chicago

Milwaukee

Indianapolis

Minneapolis

A Few Of The MODERN NATIONAL FOOD STORES In All Branches

Shining bright in their new settings and glowing warm with friendly atmosphere these new "National's" are the showplaces of the communities they serve.

↑ *(Above)*
Modern Meat Merchandising is best exemplified by this streamlined spotless white Meat Department typical of all National Food Stores.

← *(Left)*
Fresh Fruits and Vegetables in all their colorful array remind National Shoppers that where nature grows the finest National buys the best.

National Maid Baked Foods

are displayed in grand style in this model National Maid Bakery Department more of which will make their debut in the near future. →

Serve Yourself and be Satisfied . .

Is a saying best illustrated by this modern Self Service Frozen Food and Dairy Department common to all new National Food Stores. ↓

For Health Beauty and Economy

Many New National Food Stores now provide best known toiletries as illustrated below. ↓

NATIONAL FOOD STORES SERVE..

NORTH DAKOTA
11 Stores
11 Markets

MINNESOTA
109 Stores
106 Markets

SOUTH DAKOTA
8 Stores
8 Markets

WISCONSIN
85 Stores
75 Markets

MICHIGAN
10 Stores
9 Markets

IOWA
26 Stores
19 Markets

ILLINOIS
394 Stores
276 Markets

INDIANA
59 Stores
52 Markets

NATIONAL TEA CO. FOOD STORES